

Message Text

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ACTION ARA-14

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-05 H-01

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 4073

INFO USMISSION USUN NEW YORK

USMISSION GENEVA

AMEMBASSY KINGSTON

C O N F I D E N T I A L SECTION 01 OF 02 MEXICO 13136

E.O. 11652: GDS

TAGS: OVIP (YOUNG, ANDREW), EAID, JA

SUBJECT: CARIBBEAN REGIONAL ECONOMIC ISSUES. US/JAMAICAN
EXCHANGE OF VIEWS ON YOUNG VISIT

1. FOLLOWING THE AUGUST 5 MEETING BETWEEN AMBASSADOR YOUNG AND FORMIN PATTERSON, U.S. AND JAMAICAN MFA OFFICIALS CONTINUED DISCUSSIONS, CONCENTRATING ON ECONOMIC POLICY ISSUES, PRINCIPALLY THE COMMON FUND, ASSISTANCE ELIGIBILITY INDEXES AND VARIOUS APPROACHES TO REGIONAL DEVELOPMENT. JAMAICAN PARTICIPANTS INCLUDED MFA PERMANENT SECRETARY FRANK FRANCIS, MSSRS. WILSON, RODNEY, PICKERSGILL, KIRTON AND MS. CHIN. U.S. PARTICIPANTS WERE VALDEZ, EINAUDI, HORMATS, BRESLIN, MATTESON AND COCHRAN (EMBASSY KINGSTON). MAIN POINTS COVERED ARE AS FOLLOWS:

(1) THE COMMON FUND:

.4. HORMATS TOLD THE JAMAICAN SIDE THAT WHILE THE ISSUE OF A COMMON FUND WAS RECEIVING ACTIVE ATTENTION, THERE
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WERE STILL NUMEROUS QUESTIONS TO BE ANSWERED. THESE DEALT IN LARGE MEASURE WITH FINANCING PROBLEMS, PARTICULARLY HOW TO REPLENISH THE FUND WHEN, BECAUSE OF SIMULTANEOUS DRAWINGS BY INDIVIDUAL BUFFER STOCKS, IT HAD BEEN BROUGHT TO OR NEAR DEPLETION. MR. PICKERSGILL SAID THAT IT WAS "REFRESHING" TO LEARN OF THE PROGRESS BEING MADE BUT HE ASKED THREE QUESTIONS REGARDING AMERICAN

THINKING ON THE PURPOSES OF THE COMMON FUND:

- A. DO WE SEE IT AS A CONTRA-CYCLICAL DEVICE?
- B. DO WE SEE IT BEING USED AS A DEVELOPMENT TOOL SUPPORTING SUCH THINGS AS PROCESSING OF THE PRODUCTS COVERED BY THE COMMON FUND?
- C. DO WE SEE IT BEING LINKED TO INDEXATION?

MR. HORMATS ANSWERED:

- A. WE SEE IT AS A PRICE STABILIZATION OR DEVICE, I.E., TO HELP SUPPORT BUFFER STOCKS, TO REDUCE PRICE INSTABILITY. WE WISH COMMODITY AGREEMENTS WHICH HAVE BUFFER STOCKS TO HAVE THESE STOCKS LARGE ENOUGH TO EASE FLUCTUATIONS IN PRICE.
- B. RE USE OF THE COMMON FUND AS A SOURCE OF DEVELOPMENT FUNDS, IT IS OUR VIEW THAT SUCH ASSISTANCE CAN AND SHOULD BE PROVIDED BY OTHER INSTITUTIONS ON A CASE-BY-CASE BASIS; NOT REPEAT NOT BY THE COMMON FUND.
- C. INDEXATION IS A NON-STARTER. THE LINKAGE BETWEEN PRIMARY PRODUCTS AND MANUFACTURED GOODS WOULD DISTORT MARKETS, HARMING BOTH PRODUCERS AND CONSUMERS.

MR. PICKERSGILL THEN NOTED THAT HE QUITE UNDERSTOOD THE POSITION ON DEVELOPMENT OF PROCESSING BUT THAT STILL LEAVES COUNTRIES LIKE JAMAICA TO FACE THE PROBLEM OF TRADE BARRIERS. MR. HORMATS SAID THAT THE U.S. IS TO ADDRESS THE PROBLEM OF ESCALATING TARIFFS. HE NOTED, HOWEVER, THAT WE

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CONFRONT A DOMESTIC PROBLEM IN REGARD TO A DRAMATIC LOWERING OF PROCESSED PRODUCTS. IF, HOWEVER, OUR COUNTRIES WORK TOGETHER IN THE MTNS WITH THE LDCSCKS, TO REDUCE PRICE INSTABILITY.

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WORK TOGETHER IN THE MTNS WITH THE LDCS MAKING A CONTRIBUTION TO ITS LIBERALIZATION OBJECTIVES, THERE IS A GOOD PROSPECT OF DEALING WITH THE PROBLEM IN SOME PRODUCTS, IN THE CONTEXT OF A GLOBAL LOWERING OF TRADE BARRIERS.

(2) ASSISTANCE ELIGIBILITY:

THE DISCUSSION TURNED TO THE BASES FOR ESTABLISHING ELIGIBILITY FOR ASSISTANCE. THIS HAD BEEN RAISED EARLIER BY FOREIGN MINISTER PATTERSON WHO HAD ARGUED THAT THE USE OF PER CAPITA GNP IS INAPPROPRIATE FOR JAMAICA GIVEN THE SKEWING OF STATISTICS CAUSED BY THE SIZE OF THE (I) BAUXITE AND (II) TOURIST INDUSTRIES, BOTH OF WHICH ALSO INVOLVE SUBSTANTIAL FOREIGN INVESTMENT. MR. VALDEZ SAID THAT THE SEARCH FOR MORE APPROPRIATE CRITERIA WAS LEADING SOME TO CONFIDENTIAL

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CONSIDER A "PHYSICAL QUALITY OF LIFE INDEX," BASED ON A MIX OF FACTORS SUCH AS MORTALITY RATES. MR. PICKERSGILL SAID THAT ALTHOUGH PER CAPITA GNP PERMITS READY COMPARABILITY, THE JAMAICAN EXPERIENCE DEMONSTRATES ITS DEFICIENCY, AND THUS SUCH MEASURES AS "PHYSICAL LEVEL OF LIVING" OR "LEVELS OF UNEMPLOYMENT" MIGHT BE CONSIDERED. THE PRIMARY NEED, HOWEVER, IS FOR CONSENSUS SO THAT THE ISSUE OF COMPARABILITY IS LAID TO REST, AND THIS REQUIRES POLITICAL WILL. MR. EINAUDI SUGGESTED THAT THE ISSUE WAS LESS THE SOURCE OF THE PARTICULAR INDEX USED THAN THE WAY IN WHICH IT WAS APPLIED, NOTING THAT CURRENT METHODS TENDED TO CREATE "ALL OR NOTHING" ARBITRARY CUT-OFF POINTS NOT IN HARMONY WITH THE NEEDS OF LESS POOR DEVELOPING COUNTRIES. PERMANENT SECRETARY FRANCIS THEN ADVERTED TO THE DEEPENING PROBLEMS CAUSED BY THE SHARP RISE IN ENERGY PRICES. JAMAICA HAD A DEFICIT IN ITS BALANCE-OF-PAYMENTS PRIOR TO 1974, BUT IT WAS MANAGEABLE; NOW IT IS NOT, AND FOR REASONS BEYOND JAMAICA'S CONTROL. MOREOVER, THE RECESSION

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WHICH ACCOMPANIED THE RISE IN PETROLEUM PRICES CUT JAMAICAN EXPORTS, THUS INCREASING ITS DIFFICULTIES. IT IS A PROBLEM SUCH AS THIS WHICH MAKES THE NEED FOR ASSISTANCE PARTICULARLY PRESSING, REDUCING THE IMPORTANCE OF INDICES AS BASES FOR ELIGIBILITY VERY CONSIDERABLY.

(3) A COHERENT APPROACH TO ASSISTANCE:
MR. EINAUDI NOTED THAT THE CARIBBEAN IS SEEN BY THE U.S. AS A REGION WHICH HAS IMPORTANT, OFTEN VITAL PROBLEMS WHOSE RESOLUTION IS IN THE U.S. INTEREST. CAN THOSE PROBLEMS BE SOLVED ON A REGIONAL BASIS OR MUST EACH COUNTRY AND ITS PROBLEMS BE DEALT WITH INDIVIDUALLY? THE VERY ITINERARY FOR AMBASSADOR YOUNG UNDERSCORES THE PROBLEM. THE U.S. IS ANXIOUS TO HELP, BUT THERE IS A GROWING DESIRE TO ENSURE THAT "AID BE MULTILATERAL AT BOTH ENDS," I.E., THAT ASSISTANCE BE PROVIDED TO AND THROUGH REGIONAL GROUPINGS OR CONSORTIA.

PERMANENT SFCRETARY FRANCIS SAID THAT THE "ODD MIX" OF COUNTRIES IN AND AROUND THE CARIBBEAN MAKES SUCH AN
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APPROACH VERY DIFFICULT. THE NEED FOR ASSISTANCE IS THE ONLY COMMON FACTOR SINCE NEEDS AND CIRCUMSTANCES VARY WIDELY. THE TYPE AND TIMING OF ASSISTANCE MUST INEVITABLY VARY. AND EVEN WHEN THE NEEDS ARE THE SAME, LOCAL PERCEPTIONS AND JUDGMENTS WILL VARY. MR. HORMATS ASKED WHETHER THERE MIGHT NOT YET BE SOME COHERENT, SYSTEMATIC WAY TO LOOK AT THE CARIBBEAN AND ITS NEEDS. THE PERMANENT SECRETARY SAID THAT THE CARIBBEAN DEVELOPMENT BANK MIGHT BE ABLE TO OFFER SOME THOUGHTS ON THIS.

MR. VALDEZ THEN ASKED WHETHER THERE MIGHT BE A REGIONAL APPROACH TO SPECIFIC KINDS OF DEVELOPMENTAL PROBLEMS. MR. HORMATS WENT ON TO ASK IF THE NATIONS OF THE CARIBBEAN AND THOSE INTERESTED IN ITS DEVELOPMENT MIGHT CONSIDER MEETING TO CONSIDER A REGIONAL APPROACH TO COMMON PROBLEMS. MR.

PICKERSGILL ASKED WHETHER SUCH A CONSORTIUM SHOULD GO BEYOND QUESTIONS OF POLICY, REMINDING THE OTHERS THAT THERE ARE OTHER SOURCES OF ASSISTANCE WHICH MAY BE AVAILABLE BUT WHICH MAY NOT WISH TO PARTICIPATE IN A CONSORTIUM. HE ALSO ASKED HOW BOTH THE REGIONAL GROUPING AND HOW THE CONSORTIUM ACHIEVE COMPLEMENTARITY BETWEEN AND WITHIN EACH OTHER.

MR. HORMATS ASSURED MR. PICKERSGILL THAT U.S. THINKING IS BOTH VERY PRELIMINARY AND EXPLORATORY. HOWEVER, HE POINTED OUT THAT BY FOCUSING ATTENTION ON AN AREA, AS DISTINCT FROM INDIVIDUAL COUNTRIES, IT MAY BE POSSIBLE TO STIMULATE A GREATER AWARENESS ON THE PART OF AMERICANS REGARDING THE NEED FOR ASSISTANCE AND IMPROVED COOPERATION AMONG THE NATIONS OF THE REGION TO ENSURE ITS EFFECTIVE USE. MR. EINAUDI WENT A STEP FURTHER WHEN HE SAID THAT THE U.S. SEES DEVELOPMENT AS CONTRIBUTING TO STABILITY, AND SUCH STABILITY COULD PREVENT THE EMERGENCE OF PROBLEMS WHICH WILL HAVE A SPILL-OVER EFFECT ONTO AMERICAN SOCIETY. THUS, IT CONFIDENTIAL

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GAINS ADDED IMPORTANCE. BUT HE SAID THERE IS A BASIC REALITY: THE U.S. DOES NOT WANT TO GO ALONE; OTHERS MUST BE INVOLVED. MOREOVER, ASSISTANCE RECIPIENTS MUST BE SEEN TO BE TAKING THEIR DEVELOPMENT EFFORTS SERIOUSLY AND DEALING WITH THEM EFFECTIVELY. PERMANENT SECRETARY FRANCIS SAID THAT HE RECOGNIZES THE STRENGTH OF THE ARGUMENTS AND THAT IT WAS IMPORTANT THAT THE RECIPIENTS BE INVOLVED FROM THE BEGINNING IN WORKING THE RULES FOR THE CONSORTIUM SO THAT IT WOULD BE MOST BENEFICIAL TO THEM. THE DISCUSSION CONCLUDED WITH THE JAMAICAN SIDE INDICATING THEY FOUND THE POSSIBILITY OF MORE INTEGRATED DEVELOPMENT APPROACHES INTERESTING, THAT THEY WOULD CONSULT WITH THEIR FINANCIAL COLLEAGUES AND THAT THEY WOULD KEEP IN TOUCH WITH US AS THEIR THINKING DEVELOPED. LUCEY

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